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The Relationship of Corporate Social Responsibility Disclosure and the Effectiveness of Internal Control: Evidence from Chinese Public Companies

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АННОТАЦИЯ

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Описание цели, задач и основных результатов	<p>Целью данного исследования является выявление взаимосвязи между эффективностью внутреннего контроля и раскрытием информации о КСО путем изучения того, может ли эффективность внутреннего контроля улучшить качество раскрытия информации о КСО. Мы рассмотрели теоретические основы КСО и структуру внутреннего контроля, которые поддерживают возможную связь между КСО и внутренним контролем. Кроме того, предлагается пять гипотез, основанных на пяти целях в рамках внутреннего контроля Китая, при поддержке теорий, связанных с КСО, анализом политики и институциональной базой Китая. Для проверки разработанной гипотезы в SPSS применяется регрессионная модель с данными, собранными официальными рейтинговыми агентствами Китая, по выборке из 825 китайских публичных компаний. Результаты показывают: 1) Реализация цели иерархии операций является ключевой движущей силой для китайских предприятий по улучшению раскрытия информации о КСО. 2) Реализация общих целей внутреннего контроля не оказывает непосредственного влияния на качество раскрытия информации о КСО, поскольку остальные 4 цели не оказали существенного влияния. Наблюдаемая причина является главной мотивацией для китайских компаний, зарегистрированных на бирже, для раскрытия информации о КСО не из-за своих внутренних потребностей в области устойчивого развития, а из-за пассивного реагирования на регулирование правительства под давлением институционального надзора.</p>
Ключевые слова	Корпоративная социальная ответственность (CSR), внутренний контроль, раскрытие информации, китайские публичные компании

ABSTRACT

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Master Thesis Title	The Relationship of Corporate Social Responsibility Disclosure and the Effectiveness of Internal Control: Evidence from Chinese Public Companies
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Description of the goal, tasks and main results	<p>The goal of this study is to reveal the relationship between the effectiveness of internal control and CSR disclosure by investigates whether the effectiveness of internal control could improve the quality of CSR disclosure. We reviewed the theoretical background of CSR and the internal control framework, which support the possible link between CSR and internal control. Furthermore, five hypotheses are proposed based on the five objectives under the framework of China's internal control, with the support of theories related to CSR, policy analysis, and the institutional background of China. To test the developed hypothesis, the regression model is applied in SPSS with the data gathered from China's official rating agencies on the sample of 825 Chinese public companies. The results show: 1) The realization of the operation hierarchy objective is the key driving force for Chinese enterprises to improve CSR disclosure. 2) The realization of the overall internal control objectives doesn't show a close impact on the quality of CSR disclosure because the remaining 4 goals had no significant impact. The observed reason is the main motivation for China's listed companies to release CSR disclosure is not from their own internal sustainable development needs but from the passive response to regulation of government under the pressure of institutional supervision.</p>
Keywords	Corporate Social Responsibility (CSR), Internal Control, Disclosure, Chinese Public Companies

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Introduction

Chinese enterprises are integrating with the international market while completing the transition from planned economy to market economy. However, the pursuit of profit maximization by enterprises and the lack of supervision have led to a series of incidents that endanger the safety and interests of the public. In recent years, under the guidance of the Chinese government, corporate social responsibility (CSR) has gradually attracted the attention of enterprises and the society. In order to enhance the supervision on the fulfillment of CSR, the Chinese government has formulated the *Basic Norms of Enterprise Internal Control* that based on the internal control framework released by COSO, which clearly defines the internal control requirements of CSR. Different from the European and American internal control system, China's internal control system is not only used to reasonably ensure the effectiveness of financial report internal control, but also extends to all levels of operation and management. Chinese government promotes the sustainable development of enterprises through the supervision of internal control and encourages enterprises to disclose independent CSR report.

The factors that determine and restrict CSR behavior include not only the differences in external governance mechanisms such as government intervention and marketization process, but also the management process of enterprises' internal control. The internal control system has positive significance for enterprises in preventing risks, standardizing management, promoting sustainable development as well as promoting corporate to fulfill their CSR. (Li & Zheng, 2018) The internal control of CSR is an important part of internal control system. The *Basic Norms of Enterprise Internal Control* stipulate that the enterprise should establish the supervision process from production safety, product quality, environmental protection, resource conservation, promotion of employment, the rights and interests of workers and other aspects of the enterprise social responsibility internal control. The internal control system provides the management framework and guidance for enterprises to fulfill their social responsibilities.

As an important non-financial report, CSR disclosure is a way of communication between enterprises and stakeholders, as well as an integral part of information and communication

elements in the internal control framework. CSR disclosure reveals the fulfillment of CSR of enterprise in some extent. Internal control can be used as the regulator of the quality of CSR disclosure, which has a significant positive adjustment effect on the quality of CSR disclosure. (Tang, 2016) Internal control and CSR disclosure alleviates the imbalance of corporate governance structure in some extent and further alleviates the lack of CSR to some extent.

With the increasing importance of CSR disclosure in corporate practice, independent empirical research on CSR disclosure has gradually become the focus of people's attention. Some empirical study indicate that CSR disclosures are positively related to the firm financial performance (Chen et al., 2016) and firm value through higher profitability, growth, and sales per employee (Lins et al., 2017) as well as indirect link such as consumer awareness. (Servaes & Tamayo, 2013). The positive relationship between financial performance and CSR performance became stronger incentives for enterprise to reveal information on their social performance in order to improve their publicity. Meanwhile, the improvement of the quality of CSR disclosure has put forward higher requirements for enterprises in terms of corporate governance. Many scholars conduct the empirical studies from the corporate governance perspective, they examined board independence, and presence of audit committee (Khan, 2013) have positive significant impacts on CSR disclosures. Some scholars also examined the intellectual capital of the board (Berezinets et al., 2016), the casual effect of corporate governance and CSR. (Hoje et al., 2012).

Research Gap

Currently, researches on CSR disclosure mainly focus on the relationship of financial performance and corporate governance (higher decision-makers). However, the whole corporate operation system is closely related from the higher decision-making level to employees. There are few researches on the whole internal mechanism driven by CSR performance from the management system level. Especially under the context that Chinese enterprises adopt internal control as an overall management control system, the research related to the relationship of CSR disclosure and the effectiveness of internal control system need to be further explore.

Research questions and aims of study

Research question: 1. How does internal control affect the Corporate Social Responsibility of the Company?

2. Whether the effective internal control will lead to high quality CSR disclosure in the company?

The main purpose of this thesis is to give the insight of the intricate relationship of internal control and the CSR, in order to see how does internal control affect the disclosure of CSR and examine with the empirical data from public companies of Chinese to see whether the effective internal control will lead to high quality of CSR disclosure or not.

Research design

In order to answer research questions, we will conduct the literature review to explore the theoretical background of CSR and the internal control framework, which support the possible link between CSR and internal control. Furthermore, five hypotheses are proposed based on the five objectives under the framework of China's internal control, with the support of theories related to CSR, policy analysis, and the institutional background of China.

To test the developed hypothesis, the regression model is applied in SPSS with the data gathered from China's official rating agencies on the sample of Chinese public companies. Data collected through RKS database, an authoritative third-party rating agency for CSR in China, and DBI database, an authoritative third-party data collection agency which focuses on risk management, internal control and internal audit.

Finally, the paper will analyze the impact of effectiveness internal control on the CSR disclosure based on the empirical study result and try to give the insight of the relationship of internal control and CSR disclosure.

Chapter 1. Theoretical background

Under the background of economic globalization, sustainable development became the challenge of all enterprise. Werther Jr and William B. (2005) present the area of CSR as a constantly evolving field with direct impact on organizational strategies and success. Japanese scholar indicate that internal control is the corporate revolution from profit-oriented to social contribution. (Naoki Yamamoto, 2008)

From the perspective of internal control system, the goal of internal control conforms to the requirements of stakeholders to a certain extent and reflects the requirements for the fulfillment of corporate social responsibility. From the perspective of information disclosure, relevant departments encourage enterprises to separately disclose corporate social responsibility information, which to some extent reduces the degree of information asymmetry among stakeholders and is conducive to the protection of stakeholders, which also reflects the requirements for corporate social responsibility. From financial perspective, both CSR and internal control are positively related to the firm value and corporate financial performance (Adeneye & Ahmed, 2015). Internal controls also play a significant and partially mediating role between CSR and stock price crash risk. (Hao, 2018)

In this chapter I am going to elaborate the concept of CSR and Internal control to build a theoretical background of the research. From the perspective of CSR, the development of CSR and the CSR in China will be described. More important, the related theories will also be thoroughly covered. On the other hand, the Internal control part will focus on the integrated framework that put forward by COSO and further development in China combined with the situation in China.

1.1 Corporate Social Responsibility

1.1.1 Theoretical Background of CSR

After the two industrial revolutions, despite the social productivity has been greatly improved, people hold a negative attitude towards the business and enterprise because of many enterprises try to exploit suppliers and employees in order to become a strong social competitor. This

phenomenon has generated many negative impacts with the vigorous development of industry at the end of 19 century. Under this context, the term "corporate social responsibility" was put forward by Oliver Shelton, a British scholar, in his philosophy of management published in 1923. He linked CSR with the responsibility of corporate operators to meet various human needs both inside and outside the industry. The concept of CSR in the west came into people's sight along with the discussion of moral and ethical issues in corporate economic activities.

The development of CSR has experienced a fierce debate in western economics and sociology over the balance between economic and social benefits of enterprises. Howard Bowen (1953) indicated that corporate social responsibility expresses a fundamental morality in the way a company behaves toward society, businessmen have an obligation to make policies, make decisions, or take certain actions in accordance with the desired goals and values of society. Friedman (1970) considers that CSR takes advantage of resources in order to maximize the interests of stakeholders and emphasize generate profit is the first priority for corporates. Both arguments have echoes of the CSR debate in 1980s, but eventually came to a consensus that enterprises should not only pursue economic benefit but also undertake social responsibility.

The connotation of CSR has been enriched overtime. At the end of 1980s, because of the higher demand for quality of life, the public began to expect enterprises to solve social problems and give back to society. Therefore, the focus of academia on CSR has shifted from whether enterprises should pursue profit maximization to philanthropy. Carroll (1979) incorporates corporate ethical responsibility and philanthropic responsibility into the assessment of corporate social performance. At the end of the 20th century, many countries realized the legal accountability of CSR to varying degrees by improving corporate law and commercial law. Enterprises faced the pressure from public and legal, participating in various activities to make their image and values of legitimacy conform to the public's expectation of legitimacy. With the rapid development of the economy, the consumption of energy and resources has accelerated, and the harmful emissions have increased, leading to a sharp deterioration of the environment. As the participant of the market, the activities of enterprises are limited by resources. From the 1980s, the focus of corporate social responsibility expanded into the green and sustainable environment. While it's hard to avoid the need to increase business costs that's a concern for many entrepreneurs, Porter and Kramer (2011) argue that firms can gain a

competitive advantage over their rivals if they create business strategies that benefit both social and economic objectives. McWilliams and Siegel (2001) suggest that companies take social responsibility into strategic context and incorporate it into differentiation strategies.

Nowadays, CSR is inseparable from the sustainable development of enterprises. The world bank defines corporate social responsibility as the concept and action to improve the quality of life and social environment of stakeholders under the guidance of the concept of sustainable development. Although the concept of corporate social responsibility is not unique, we can see that scholars in different times have endowed different concepts and meaning of CSR. The connotation and development of CSR theory is accompanied by the progress of productivity and modern enterprise management.

1.1.2. CSR Development in China

Moon and Shen (2010) indicate that internal drivers of CSR in China reflected in laws, regulations, and institutional expectations and CSR being considerably endorsed and encouraged by the Chinese government. Compared with the bottom-up development process of CSR in the US and European countries, the discussion of CSR in China started late and mainly developed from the top-down under the leadership of the government. On account of China's economic reform and special market economy system, CSR in China is mainly developed under government regulation.

The development of CSR in China can be roughly divided in to 3 periods that shows in the table below: (see Table 1)

Table1: Development of CSR in China

Activities Time Period	Government / Legal Policy (Important events)	Enterprise	Academic	CSR Movement in China
The concept of CSR entered China and early development stage (1894-1999)	<ul style="list-style-type: none"> • 1984, "Decision of the central committee of the communist party of China on economic restructuring", separation of government and enterprise • 1989, <i>Environmental protection law of the PRC</i> • 1994, <i>Corporation Law of the PRC</i> • 1994, <i>Consumer Protection Act of the PRC</i> • 1995, <i>Labor Law of PRC</i> 	<ul style="list-style-type: none"> • Enterprises began to become independent producers and operators. Gradually form coexist enterprise pattern of the SOEs, private enterprises, foreign enterprises and other forms of ownership. 	<ul style="list-style-type: none"> • 1990, Yuan Jiafang, Published the first monograph on Corporate Social Responsibility 	<ul style="list-style-type: none"> • In 1994, China charity association was established
The conceptual debate stage with labor as the starting and central focus (1999-2005)	<ul style="list-style-type: none"> • 2000, <i>Law on Foreign Capital Enterprises of the PRC</i>, <i>Law on Sino-foreign Cooperative Joint Ventures of the RPC</i> • 2001, China joined the WTO • The government proposes to build a well-off society, establish a comprehensive, coordinated and sustainable scientific outlook on development, and promote all-round economic development 	<ul style="list-style-type: none"> • Participation in the global compact, By 2005, more than 50 Chinese companies had joined the global compact • 2005 Beijing declaration on CSR 	<ul style="list-style-type: none"> • 1999, Tsinghua University, "Research on the CSR movement of MNEs" • The wide spread of SA8000 in the Chinese media has drawn attention from all sides to participate in and debate • Seminar on CSR in China 	<ul style="list-style-type: none"> • Many CSR organizations have been established • Various CSR seminars and forums have been actively conducted.
A new stage of CSR internalization (2006-now)	<ul style="list-style-type: none"> • 2006, the <i>Company Law Amendment Act</i> clearly stipulated that companies should bear social responsibilities. • The government has publicly praised STATE GRID Corporation of China for releasing its first independent CSR report • 2008, SASAC, <i>Guidance on the Fulfillment of Social Responsibility by central government-owned enterprise</i> 	<ul style="list-style-type: none"> • In 2006, STATE GRID Corporation of China released the first independent CSR report • Foreign enterprises: China association of foreign enterprises issues CSR declaration 	<ul style="list-style-type: none"> • Chinese academic institutions and NGOs began to systematically introduce and conduct extensive research and discussion on CSR 	<ul style="list-style-type: none"> • Shenzhen stock exchange issues guidelines on social responsibility of listed companies • China's CSR forum extends to international forums

Sources: Made by Author

To sum up the table above, there are three characters can be found: 1) the role of government in the enactment and development of CSR is essential, despite and also because of greater market liberalization and market opening(Wang et al., 2012), 2) Chinese enterprises' attitude toward CSR also changed from merely response to external pressure to actively take CSR as an internal development strategy for the long-term survival and sustainability development. 3) After China's joined the WTO, the Chinese government's interest in establishing CSR standards and the national influence inspired by the corresponding corporate social responsibility policies and guidelines have become the premise for the integration of global corporate social responsibility of Chinese multinationals. (Miska et al., 2016)

China has witnessed a comprehensive change in economic structure over the past few decades and represents an emerging market with a unique institutional environment characterized by government intervention and lack of rule of law (Park et al., 2014). On the contrary, different types of companies have different types of dependency on government and this exposes firms to different types of legitimacy pressure. (Marquis & Qian, 2014) We can say that the research on the CSR in China is closely related to the institutional background in China.

Scholars pointed out that CSR in China is still in the primary stage of development. (Yin & Zhang, 2012) The lack of a systematic and institutionalized approach to CSR in China is mainly due to the lack of coordination between CSR and organizational design, the lack of a beneficial social normative environment and positive peer pressure.

1.1.3 Theories Related to CSR

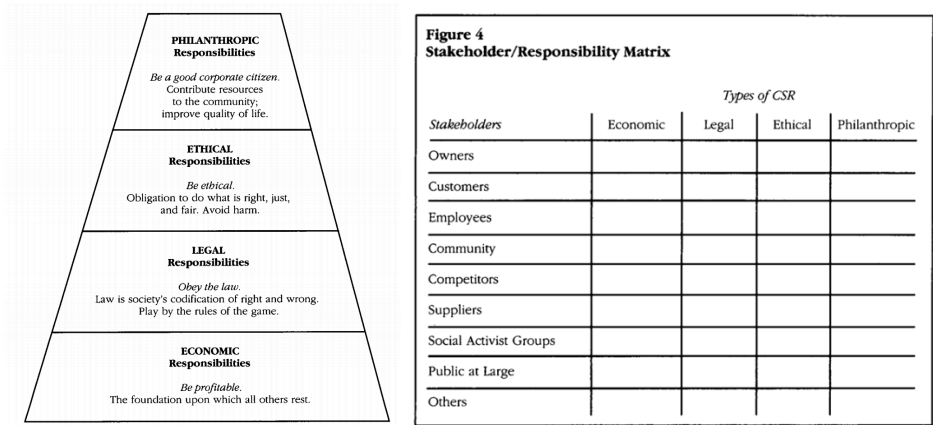
1.1.3.1 Stakeholder Theory

With the development of social productivity, commercial activities become more and more complex. Stakeholders were first defined by the Stanford Institute of International Studies in 1963, which identified stakeholders as shareholders, creditors, employees, customers, suppliers, and other trading partners. And pointed out that without the support of stakeholders, the enterprise will not exist. In 1984, Freeman further clarified the concept of stakeholders, believing that an organization involves many stakeholders. In a broad sense, the groups and individuals who can influence the formulation and realization of organizational goals can be regarded as stakeholders of the organization. On the basis of Freeman's clear definition of stakeholders, Kenneth Goodpaster (1991) suggests the "stakeholder paradox", arguing that "stakeholder analysis" has two competing explanations. From the perspective of strategy, it is believed that the purpose of managing stakeholders is only to realize shareholders or management, which makes good business sense because it allows enterprises and their managers to achieve their goals with narrow profit maximization. Another explanation is that management of stakeholders is not optional, it is morally required, managers and directors have fiduciary duty to stakeholders. However, Freeman (1994) denied the exist of stakeholder paradox and say the principle on which this paradox is based on the separation thesis, which is

nicely self-serving to business and ethics academics. He suggests that use the concept of stakeholder to create fine-grained analysis that combined business and ethics. The development of stakeholder theory established the foundation for CSR.

Carroll (1991) proposed that the theory of stakeholders should be integrated into the study of CSR, and the scope of CSR should be determined according to the different needs of different groups of stakeholders. The pyramid of CSR performance divided the activities of CSR into 4 levels, and the matrix shows the direction of how to integrate stakeholders into the types of CSR. Stakeholder theory indicates the direction for defining the content of corporate social responsibility information disclosure and provides a basis for measuring its disclosure quality. (see Figure 1)

Figure 1: The pyramid of corporate social responsibility and Evaluation Matrix



Source: Carroll, Archie B. "The pyramid of corporate social responsibility: Toward the moral management of organizational stakeholders." Business horizons 34, no. 4 (1991): 39-48.

The stakeholder theory provides different angels for scholar to analysis CSR issue. Investigate the relationship of corporate governance or characteristics of top management team with the CSR performance become a popular trend in past decades. The stakeholder enabling principle and the principle of director responsibility elaborate that a company should be managed in accordance with the interests of its stakeholders. Meanwhile, the company directors should pay attention to their obligations and use reasonable judgment to define and guide corporate affairs in accordance with the principle of stakeholder authorization. (Freeman, 1994) Scholars proved that CSR and corporate governance are complementary mechanisms to strengthen stakeholder relationships. (Chan et al., 2014) From the perspective of finance, some scholars have

conducted empirical study and found that there is a negative correlation between CSR disclosure and the cost of equity capital, which is more obvious in stakeholder-oriented countries. (Dhaliwal et al., 2014) From the perspective of corporate image management, some scholars hold the view that corporate social responsibility disclosure is conducive to building positive corporate images from the perspective of stakeholders, and they believe that there are positive correlations between companies (Nollet et al., 2016) (Xiong et al., 2016) Stakeholder theory is that enterprise development prospects depend on the management of public satisfaction changing expectations, which depends on the management's response to the interests of stakeholders require quality, CSR include economic responsibility, legal responsibility and moral responsibility and charitable responsibility, a number of social responsibilities.

1.1.3.2 Agency Theory

With the progress of social production technology, the scale of enterprises was expanded rapidly. The principal-agent theory was proposed by American economists Berle and Means in 1932. They believe that there are many disadvantages in the practice that the owner of the enterprise concurrently manages the enterprise. Using the proxy to manage the enterprise can solve the problem of insufficient ability and low efficiency of owner, which is beneficial to the development of enterprise management and the improvement of work efficiency. Many scholars believe that modern corporate governance originates from the separation of ownership and management rights.

Principal-agent theory is based on information asymmetry theory. Due to the separation of corporate ownership and management rights, as long as the owner and executives establish the principal-agent relationship, the owner will no longer have the right to manage the business. Thus, the professional managers who are responsible for the daily operation of the enterprise will have more information about the enterprise than the enterprise owners. In the absence of effective supervision, such asymmetry information between them will lead professional managers to pursue their own interest maximization rather than the overall interests of the

company. According to Grossman this conflict is known as the principal-agent problem. It is well known that information asymmetry is the result of agency problems. (Grossman et al., 1997)

Similarly, information asymmetry exists between society and enterprises. As an agent, enterprise must undertake the expectations of the society, including paying attention to environmental protection, caring for the disadvantaged groups to solve the employment and other social responsibilities. However, these efforts towards CSR always increase the cost of enterprise. These costs are referred to as agency costs in the literature (Deegan et al., 2006). These fees are incurred by the principal to influence the agent on his behalf. The theory of agency cost is put forward by Jason and McLean (1976) that the agency cost is caused by the conflict of interest and information asymmetry between shareholders and managers. Agency theory Outlines that CSR disclosure is used to reduce agency costs and reduce existing information asymmetry. In order to reduce the cost, pursue more economic benefit, corporates may try to avoid social responsibilities. Over time, there will be conflicts between enterprises and society. In order to solve this contradiction, the government and social organizations will take some steps to put pressure on enterprises to assume corresponding social responsibilities. In order to reduce the pressure from legal departments and stakeholders, enterprises choose to take the initiative to shoulder part of social responsibility and disclose their social responsibility information as evidence.

It can be seen that the principal-agent theory provides theoretical support for the information disclosure of CSR, and the existence of information disclosure also provides a solution to alleviate the conflictions between enterprises and the society.

1.1.3.3 Legitimacy Theory

Obeying the law is one of the most basic social responsibilities of an enterprise, as mentioned before, Carroll (1979) has already put forward the pyramid model and indicate that obey the laws is one of important CSR of enterprises because all business activities of enterprises are based on legal basis. The institutional theory of organizational sociology focuses on

institutional environment and institutional factors, and emphasizes compliance, habit and expediency of corporate behavior. The core concept of organization, "legitimacy", highlights the social context of an enterprise. Legitimation is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions. (Suchman, 1995) Reviewing the CSR initiative from legitimacy perspective, organizations adopt CSR initiatives in order to enhance the appropriateness of their actions within a given set of regulations, norms, values, and beliefs that established by multiple stakeholders in order to affect the perceptions of stakeholders and seeking for long-term supporters.

Further, Suchman (1995) also explained that legitimacy is a perception or assumption in that it represents a reaction of observers to organizations as they see it. In other words, legitimacy theory asserts that it is also important for the organization to have long-term active supporters. At the center of legitimacy theory is the concept of a social contract, in which "business agrees to perform various socially desired actions in return for approval of its objectives, other rewards and ultimate survival" (Guthrie & Parker, 1989). In recent years, scholars identified that legitimation became a major motivation for firms to adopt CSR initiatives. Especially firms from emerging economies, they use legitimation strategies to manage stakeholder CSR pressures by implementing compliance and strategic adaptation. (Zheng et al., 2015) Proponents of legal disclosure use research to show that companies can try to legitimize themselves in the public eye by voluntarily disclosing information about their social and environmental activities. Responded with considerable increases in CSR disclosure that are consistent with attempts of legitimation. (Bachmann & Lngenhoff, 2016)

Different from the efficiency perspective, the legitimacy perspective believes that corporate social responsibility behavior is not only influenced by the technological environment, but also influenced by the institutional environment, which directly leads to corporate social responsibility behavior. In the institutional environment, enterprises also engage in business activities related to various interests. Social responsibility creates a symbiotic relationship between stakeholders and enterprises based on "give and take". Advantage of legalization process, organizations can achieve more efficient access to resources from some stakeholders such as investors' funds, government support, increase sales and customer loyalty, gain contract

negotiations with different suppliers and distributors, employees respect and commitment, this process helps to improve the economic and financial performance of the organization. Thus, CSR behavior is given by the system, exists in the system, and is based on institutional rationality. The perspective of legality transcends (but does not exclude) the economic rational explanation of CSR behavior, and institutional rationality is the starting point of the logic of corporate social responsibility behavior.

1.2. Internal Control

1.2.1. Definition of Internal Control

Internal control is defined in the “Internal Control- Integrated Framework” published by COSO in 1992 as “Internal control is a process implemented by the board of directors, managers and other employees of an enterprise to provide reasonable guarantees for the realization of operational efficiency, reliability of financial reports and compliance with relevant laws and regulations.” In summary, internal control is an in-house process to achieve three business objectives: effectiveness, efficiency, financial reporting and compliance.

Willis (2000) points out that internal control plays a very important role in an enterprise. It can provide strategic plans and policies for the development of the enterprise. Correcting the errors in internal control and revising the internal control system can provide great help and support for the company. Spira (2003) redefined internal control. He mainly combined internal control with risk management. The internal control integration framework released by COSO in 1992 believes that the scope of internal control is larger than that of risk management, and that risk identification, risk analysis and risk response are a component element of internal control, namely risk recovery element. But the COSO council's 2004 "integrated framework for risk management" argues that the concept of risk management is broader than the scope of internal control, and that internal control and risk management are converging. The main object of internal control is to sort out, identify, analyze and respond to various risks that affect the realization of enterprise goals. The risk-oriented concept runs through the whole process of

internal control. Internal control and risk management are not opposite, but a coordinated and unified whole.

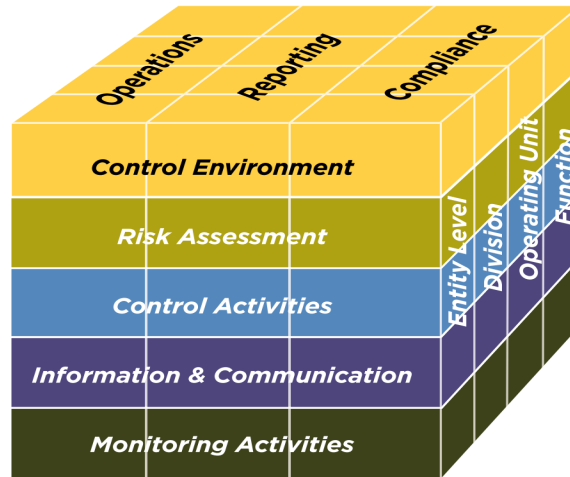
Modern enterprises are expanding their business scale and new technologies are emerging. In order to manage the enterprise well, it is necessary to establish a set of strict and complete internal control system. Internal control does not indicate any single measure, such as the introduction of a new personnel system based on performance-based performance or a new highly decentralized system. For all employees, including top management, this refers to the entire system including equipment, unified corporate culture, management policy, and organizational structure. In other words, it can be said to be the “aspect” of the structure that stretches to the details in the company. The “aspect” that represents society as a whole is operated in order to achieve each goal and purpose based on Plan Do Check Action at all levels.

1.2.2 COSO Internal Control Integrated Framework

The “Internal Control Integration-Framework” released by COSO in 1992 has received extensive attention from all over the world and become an important basis for each country to formulate its own internal control regulation. It also provides guidance on how the corporate governance layer, management and ordinary employees deal with risks, manage continuously and realize the sustainable development of the enterprise.

The overall framework of COSO internal control has been depicted as a cube, mainly includes three types of objectives, five components and entity’s organizational structure. The three categories of objectives—operations, reporting, and compliance—are represented by the columns. Five components are represented by the rows which are control environment, risk assessment, control activities, information and communication, and monitoring activities. The third dimension consists of entity level, division, operating unit and function. (see Figure 2)

Figure 2: The COSO Cube



Source: COSO Internal Control-Integrated Framework

COSO Internal Control Integrated Framework provides means to apply internal control regardless of industry or legal structure with a principle-based approach that can be implemented at the levels of entity, operating unit, or function levels. Effective internal control systems require consideration of how components and principles are combined and work together.

1.2.2.1 Objectives of Internal Control

The objectives of internal control have guiding function for the operation of all internal control system. In recent years, with the theory development of internal control, the objectives of internal control show a trend of diversification. In the beginning, the objective of internal control is to ensure the quality of accounting information, then gradually infiltrated into all aspects of corporate management and is no longer limited to finding errors and preventing fraud. Based on COSO framework, the objectives generally been divided into 3 (COSO,1992):

(1) Operating

These pertain to effectiveness and efficiency of the entity's operations, including operational and financial performance goals, and safeguarding assets against loss. If any enterprise wants to survive and develop, it must earn corresponding profits and achieve its own business goals. The effective operation of internal control can help enterprises to integrate all resources, the optimal combination, and lay the most solid foundation for enterprise

development. Timely risk assessment and effective information communication can help enterprises achieve the maximum benefits at a lower cost.

(2) Reporting

This reporting objective includes financial and non-financial reporting. Companies are required to ensure the reliability, timeliness and transparency of reports. To comply with provisions defined by other regulatory authorities, recognized standard setters, or entity policies. Reporting is a mean of effective communication not only internally but also externally. The authenticity, integrity and reliability of report information are basic requirements of enterprise report and the guarantee of enterprise's long-term development. After the Enron scandal broke, Sarbanes-Oxley Act was enacted to improve the quality of accounting information, win the trust of investors and restore the vitality of the investment market.

(3) Compliance

These pertain to adherence to laws and regulations to which the entity is subject. Reasonable assurance of legal compliance. The establishment of internal control can help enterprises to form an atmosphere of abiding by laws and regulations, not violating the corresponding provisions in each link of operation, and reducing the economic losses caused by violation of laws and regulations.

1.2.2.2 Components of Internal Control

The UK Financial Reporting Council believes that 5 components play a very important role in the improvement of internal control, only by doing these five aspects well and making them promote and influence each other can the internal control system of enterprises be improved. (FRC, 2005) The table below shows the summary of the 5 component and 17 principles of internal Control. (see Table 2)

Table 2: 5 Component and 17 Principles of Internal Control

5 components	17 principles
Control environment	1. Demonstrates commitment to integrity and ethical values 2. Exercises oversight responsibility 3. Establishes structure, authority, and responsibility 4. Demonstrates commitment to competence 5. Enforces accountability.
Risk assessment	6. Specifies suitable objectives 7. Identifies and analyzes risk 8. Assesses fraud risk 9. Identifies and analyzes significant change
Control activities	10. Selects and develops control activities 11. Selects and develops general controls over technology 12. Deploys control activities through policies and procedures
Information and communication	13. Uses relevant information 14. Communicates internally 15. Communicates externally
Monitoring activities	16. Conducts ongoing and/or separate evaluations 17. Evaluates and communicates deficiencies

Source: Adapted from the COSO “Internal Control – Integrated Framework”

The internal control elements of an enterprise are all aspects that constitute the internal control mode. Generally, the relationship of 5 elements within the internal control system are as follows: 1) The internal environment is the basis for the implementation of internal control, it not only constitutes the basic atmosphere of the enterprise but also builds the foundation for the existence of internal control. It dominates or influences employees' behaviors and ideas. The quality of the internal environment directly determines whether other control elements can play a role. Directly or indirectly affects the efficiency and effect of internal control. 2) Risk assessment is an important link in the implementation of internal control, it is the basic basis for enterprises to carry out control activities. Every business faces different risks, both internal and external, which must be assessed in order to analyze and identify the risks that may occur to achieve the set goals. 3) Control activities is a process in which the enterprise takes appropriate control measures to reduce the risk to an acceptable level according to the result of risk assessment. Control activities are policies, methods, procedures, and actions taken against risks, guided by control objectives. This is the means to ensure that relevant measures to reduce risk are implemented smoothly. 4) Information and communication is a lubrication system to ensure the good operation of enterprise internal control. High-quality information is essential

to the implementation of internal control and risk management activities. 5) Monitoring Activities is at the top of the internal control component. Internal supervision is the key to ensure the effective implementation of internal control, and it is also an important link to promote the continuous improvement and improvement of enterprise internal control. (Internal Control Research Group, 2008)

1.2.3 Internal Control Integrated Framework in China

1.2.3.1 Institutional Background

After the third plenary session of the 14th CPC central committee in 1993, China decided to establish a market economy and integrate itself with the international market. With the gradual opening up of the market, the western advanced management concept and management system gradually come into people's vision. Influenced by COSO's internal control framework, the Chinese government decided to strengthen the standardization and guidance of enterprise internal control. Internal control system is conducive to the enterprise to improve the management level and risk prevention ability, promote the sustainable development of the enterprise. In order to maintain the order of the socialist market economy and the public interest, the ministry of finance and other relevant departments formulated the *Basic Norms for Enterprise Internal Control* in 2008 in accordance with the relevant laws and regulations of the state. In the same year, the government issued *Guidelines on Internal Control* to further specify the standards and practical guidance.

The definition of internal control *Basic Norms for Enterprise Internal Control* is “internal control is a process implemented by the board of directors, the board of supervisors, the management and all the employees of an enterprise to achieve the control objectives.” The goal of internal control is to reasonably ensure the legitimate operation and management of the enterprise, asset safety, financial reports and relevant information is true and complete, improve the operation efficiency and effect, promote the enterprise to achieve development strategy. In COSO internal control integrated framework, there is no separate asset safety goal, which is included in its operation goal. However, China's "Enterprise Internal Control Basic Norm" puts

asset safety as a goal separately, possibly because the consideration the SOEs in China hold an important position in the economic system and the asset safety is closely related to the stability of Chinese economy. Despite Enterprises have different resources, asset is one of the most important resources of enterprises. The utilization of assets can bring direct and indirect economic benefits to enterprises and determine the future development prospects of enterprises. If the enterprise's asset management is not in place, it will lead to asset impairment or even damage. Asset loss will affect the utility of assets and the production of economic benefits. Therefore, enterprises should build the corresponding internal control system, pay special attention to the safety of assets, when making the corresponding decision, to fully consider the safety and effectiveness of assets. In the formulation of financial budget, we should establish a supporting system and standards for the effective management of assets.

To promote enterprises to achieve development strategic goals, which is not directly reflected in the COSO internal control framework, but the realize of three types of COSO objectives should also comply with the strategic goals. The sustainable development strategy is one of the most important strategies of the company. Additionally, it should be noted here that COSO clearly makes strategic decisions that affect organizational goals, which do not belong to the scope of internal control. In order to design and implement the internal control system, the organization must first clarify its goals, otherwise it cannot implement the internal control system. And in China "Internal Control Application Guidelines No.2 Development Strategy"(Internal Control Research group, 2010), it aims to promote enterprises to enhance core competitiveness and sustainable development capacity, specifically to guide enterprises to formulate and implement development strategy, from this point of view is on the basis of COSO further expand the scope of internal control management.

1.2.3.2 5 Hierarchies Objectives of Internal Control in China

Based on COSO internal control integrated framework, consider the situation of Chinese economy China further expend COSO internal control framework. China introduced 2 extra objectives, assets safety and the realization of enterprise strategy. The hierarchical structure of

the internal control objective system of internal control integrated framework in China can be depict as pyramid which shows below. (see Figure 3)

Figure 3: The Hierarchical Structure of Internal Control Objective System



Source: Enterprise Internal Control Basic Norm

China's internal control objectives can be understood from the following five levels of objectives:

(1) Strategic Hierarchy Objective

Enterprise development strategy is on the basis of comprehensive analysis and scientific forecast of the current situation and future trend, it is about the long-term development goals and strategic planning formulated and implemented by enterprises. It is pointed out in the *Basic Norms of Enterprise Internal Control* that enterprise development strategy should be well formulated, publicized, monitored and adjusted in time. (Internal Control Research Group, 2008) The strategic goal is the starting point for the enterprise to make strategy, which reflects the direction and level of the enterprise's business activities in a certain period of time. (COSO, 2004) Thus, specific measures of internal control of enterprise development strategy include making annual work plan according to enterprise development strategy, preparing comprehensive budget, and specific decomposition and implementation of annual goals.

It is pointed out in *Guidelines on Internal Control* that risk should be paid attention to when formulating and implementing enterprise strategy. As the highest goal of internal control in Chinese enterprises, it can be seen from the related internal control documents issued by the government that internal control is inseparable with risk management. COSO also indicated that Internal control is essentially the risk management process of corporate governance (COSO,

2014). Enterprises should pay attention to the external risks from political, economic, regulatory, relevant stakeholders and the overall development of the industry as well as the internal risk such as management ability and resource integration ability.

(2) Operation Hierarchy Objective

The objective of operating hierarchy requires enterprises to optimize the process, improve the organizational efficiency, and maximize the operational efficiency and effect. If an enterprise wants to win in the fierce market competition, it must improve its own operating efficiency, create as much value as possible, and seek benefits for the long-term development of the enterprise. This requires the enterprise in the development and design of internal control must be economic and effective, which is reflected in the enterprise can ensure the lowest cost to obtain high-quality resources, to prevent unnecessary duplication of labor and waste. This internal control objective usually from the budget management, operation analysis, financial indicators control and other aspects of enterprise management. Take the initiative to grasp the development direction of enterprise management and ultimately promote the maximization of enterprise value.

(3) Compliance

The objective of the legal compliance level of the enterprise requires the enterprise to comply with the policies, procedures, regulations, laws and regulations. Enterprise internal control emphasizes the importance of laws and regulations, especially the implementation of relevant laws and regulations. Effective internal control can promote employees to highly recognize the legal system, ethics and integrity, so that compliance and integrity become a kind of conscious behavior. The degree to which a listed company can achieve its legal compliance goals can be measured by violations of laws and regulations and litigation matters, so as to investigate the defects of internal control.

(4) Reliability of Financial Report

Financial reports and related information are the channels for investors, creditors and other users to understand the operation status and value of enterprises. To strengthen the internal control of enterprise financial report, to ensure the quality of the information in the financial report, to perfect the corporate governance and management, promote capital market and the market economy sustainable development important enterprise investors, creditors and other

stakeholders through the enterprise provide financial reports and related information to understand the status of the enterprise management. Therefore, one of the basic goals of internal control is to ensure the reliability of corporate financial reports and related information. Enterprise financial report can fully reflect the operation and profit of the enterprise, the enterprise should pay attention to the role of financial report, to a certain extent to guide the development direction of the company, in order to better manage the company. At the same time, enterprises also need to establish a sound supervision system to promote the improvement of internal control and the development of enterprises. The authenticity and reliability of financial reports are crucial to the development of enterprises. Internal control guidelines point out that inaccurate and incomplete financial reporting is often an important source of risk for an organization.

(5) Asset Safety

Asset safety mainly refers to the prevention of asset loss, which may be caused by misappropriation, encroachment, theft or waste, or it may be caused by wrong business decisions or mistakes. The *Basic Norm of Enterprise Internal Control* defines the scope of assets as the inventory, fixed assets and intangible assets owned or controlled by the enterprise. Therefore, the security of enterprise assets should be analyzed from these three aspects. As one of the important components of the current assets of an enterprise, inventory must be purchased, consumed and sold continuously in order to ensure the continuous normal operation of enterprise. The total amount of fixed assets in the enterprise generally occupies a large proportion, effectively strengthening the internal control of fixed assets is very necessary to improve the asset security and utilization efficiency and improve the operation capacity of enterprise assets. (Yan, 2017)

As for intangible assets, the Enterprise internal control guidance mainly points out to strengthen brand construction, strengthen goodwill management, effectively maintain and enhance the social recognition of enterprise brand. Recently, more and more scholars explore the relationship of brand building and CSR and indicate that corporates use strategic CSR as an efficient tool during brand build process. (Guzmán et al., 2017) From the perspective of consumer cognition, the fulfillment of corporate social responsibility improves the corporate brand image, reflects the brand attitude, and wins the favor of consumers. (Ramesh et al., 2019)

The management of intangible assets such as brand will promote the fulfillment of corporate social responsibility. Brand image and brand attitude play an intermediary role in consumers' response to CSR activities.

1.3 Hypotheses Development

Based on the theoretical background of CSR, internal control framework, policy analysis and the institutional background of China, which support the possible link between CSR and internal control five hypotheses will be developed.

Based on the stakeholder theory, scholars proved that CSR and corporate governance are complementary mechanisms to strengthen stakeholder relationships. (Chan et al., 2014) the sustainable development of enterprises is not only related to shareholders, but also to various direct or indirect stakeholders. In a sense, the sustainable development strategy of enterprises should be used to guide the strategies of other enterprises and implement the sustainable development strategy of enterprises. The formulation and realization of high-quality corporate strategic objectives is a necessary means to prevent such a risk problem, actively adjusting the role of the play of internal control in the realization of corporate social responsibility, so as to avoid the risk caused by the lack of corporate social responsibility. From the perspective of stakeholders, in the face of external risks, if the formulation and realization of strategic objectives can proceed from the perspective of sustainable development, the adjustment of stakeholders' interest conflicts will help to make up for the lack of corporate social responsibility. In order to meet the strategic needs of sustainable development, high-quality CSR disclosure helps to strengthen the relationship with stakeholders and reduce the external environmental risks of enterprises.

H1: There is a positive relationship between the quality of CSR disclosure and the realization of corporate strategic objectives.

Efficient operation the enterprise is one of the most important objectives of internal control. According to the CSR pyramid model, we can see that the basic CSR includes the corporate

economic responsibility. For enterprises, economic responsibility is the most basic and important social responsibility, but it is not the only responsibility. Economic responsibility is at the bottom of the pyramid and is the foundation of CSR. All other business responsibilities are predicated upon the economic responsibility of the firm, because without it the others become moot considerations. (Carroll, 1991)

Through analyzing the factors influencing corporate social responsibility disclosure, some scholars have found that one of the main factors is corporate profitability. (Ali, 2017) Chinese scholars chose profitability and growth ability indicators to measure financial performance for empirical research, proving that there is a positive correlation between corporate social responsibility and financial performance. (Xu & Zhang, 2007) Many scholars also proved that the financial performance of the enterprises has the positive impact on the fulfillment of CSR, because promoting the growth of financial performance provides financial guarantee for enterprises to undertake social responsibility. From the perspective of stakeholders, the good operation of enterprises can continuously meet the expectations of stakeholders. On the contrary, failure to meet the expectations of stakeholders can cause market panic and ultimately lead to a decline in profitability. (Cornell et al., 1987)

H2: There is a positive relationship between the quality of CSR disclosure and the realization of corporate operation objective.

According to the agency theory, release authentic and reliable financial reports are helpful to alleviate agency conflicts, which also increases the motivation of enterprises to disclose CSR. As a document that comprehensively reflects the operation effect and efficiency of an organization, financial report is also an important way to communicate with stakeholders. The theory of agency cost is put forward by Jensen and Meckling (1976) that the agency cost is caused by the conflict of interest and information asymmetry between shareholders and managers. Managers are at a comparative information advantage, while owners are at an information disadvantage. Improving the reporting system of financial information and non-financial information and improving the authenticity and reliability of the reports will also help reduce agency costs. The construction of internal control system to ensure the accuracy of

financial information can promote the communication with stakeholders, thus promoting the fulfillment of corporate social responsibility.

H3: There is a positive relation between the quality of CSR reporting and the realization of financial reporting reliability objective.

In the literature review, we mentioned that the concept of CSR is related to the legitimacy theory. Suchman (1995) also explained that legitimacy is a perception or assumption in that it represents a reaction of observers to organizations as they see it. From the perspective of legitimacy, CSR behaviors are not only influenced by the technological environment, but also by the institutional environment that directly leads to CSR behaviors. Institutional environment refers to the enterprise concept of social norms, legal system, system and cultural expectations, people think a natural social fact, consists of customers, investors, government, to enterprises, environmental groups and other stakeholders' specification form. While institutional environment requires companies continually accept the form of the outside world recognized and praised, practice, regardless of whether these forms and practices within the enterprise operation efficiently, this is the mechanism of "legitimacy". (Zhou, 2003). Thus, it can be seen that enterprises actively fulfill their legal responsibilities and obligations, ensure their lawful and compliant operation, and obtain people's recognition of their legitimacy are often the important reasons for enterprises to disclose specific contents in CSR disclosure.

H4: There is a positive relationship of company's compliance and the quality of CSR disclosure.

From the perspective of China's institutional environment, assets of state-owned enterprises are the material basis of the socialist public sector of the economy, the basic driving force for the socialist modernization drive and reform with Chinese characteristics, and an important guarantee to meet the people's growing needs for a better life. Therefore, it is an inevitable choice for enterprises to fulfill their political, social and economic responsibilities to strengthen asset management and maintain and increase the value of assets. From the perspective of stakeholder theory, improving the quality of corporate social responsibility information

disclosure is conducive to easing the potential conflicts with stakeholders so as to maintain the safety of corporate assets and reduce the risks in enterprise production and operation.

H5: There is a positive relation with the quality of company's CSR disclosure and asset safety.

1.4 Summary

This chapter provides the theoretical background knowledge of CSR, introduces the definition of CSR, and describes the development process of CSR from both Chinese and foreign perspectives. Then we expound the stakeholder theory, agency theory and legislation theory, which promotes the continuous development of CSR and explains the intrinsic motivation of enterprises to release CSR disclosure. COSO's internal control framework is the crystallization of hundreds of years of internal control transactions. China absorbed COSO's advanced management system and takes internal control as a management tool, which plays an important role in the daily operation and strategic development of enterprises. Internal control in China also plays a promoting role for enterprises in the fulfillment of CSR. Some literature shows that effective internal control originates from the realization of internal control objectives. Therefore, we select five objectives under the framework of China's internal control and combine CSR theories to put forward five hypotheses as below:

H1: There is a positive relationship between the quality of CSR disclosure and the realization of corporate strategic objectives.

H2: There is a positive relationship between the quality of CSR disclosure and the realization of corporate operation objective.

H3: There is a positive relation between the quality of CSR reporting and the realization of financial reporting reliability objective.

H4: There is a positive relationship of company's compliance and the quality of CSR disclosure.

H5: There is a positive relation with the quality of company's CSR disclosure and asset safety.

Chapter 2. Methodology

2.1 Sample Selection

This paper is an empirical study on the correlation between the quality of CSR disclosure and internal control. The sample would be the public listed on Shengzhen and Shanghai A share companies who both released CSR and Internal control disclosure in 2018. The main reason is that listed companies are subject to strict supervision by relevant government departments, which represent enterprises clusters with relatively high CSR performance with transparency and immediacy of information disclosure. This paper explores the relationship between corporate internal control and the quality of corporate social responsibility information disclosure. Listed enterprises have a sound corporate information disclosure system, so the selection of samples basically meets the research needs and is feasible in data acquisition.

Up to 2018, listed companies in China have experienced 10 years of CSR information disclosure supervision and internal control information disclosure development, making the internal control system and CSR fulfillment of listed companies have developed by leaps and bounds. Therefore, this paper selects China's A-share public companies that both released CSR disclosure and internal control disclosure in 2018 as research samples. Data source are come from RKS database, DIB database and China securities regulatory commission. In the process of sample selection, this paper excluded companies (1) less than one year after their went public, (2) with incomplete index data, (3) Companies are excluded from the RKS database because they do not belong to companies required by the SEC to disclose CSR and do not voluntarily disclose independent CSR reports. The final sample number is 825 companies.

2.2 Data Acquisition

2.2.1 CSR Disclosure Data

With the establishment of the theoretical system of CSR and the continuous improvement of the connotation of social responsibility, people's awareness of CSR is becoming clear and the need for enterprises to disclose the fulfillment of social responsibility is becoming stronger. In

contrast to financial accounting, independent CSR reporting and third-party assessments are still voluntary in most countries. However, as mentioned above CSR disclosure in China is mostly promoted by government, since 2008, most of SOEs are mandatory to publish the independent CSR disclosure. In recent years, due to the strengthening of public opinion and market incentives, SMEs have also joined the group of voluntary CSR disclosure.

The data on the quality of CSR disclosure obtained from the RKS database (Rankins CSR Ratings), formerly the Runling public welfare consulting, research and public products department, was established in 2007. RKS is an authoritative third-party rating agency of CSR in China, committed to provide objective and scientific CSR information to domestic and foreign investors. The RKS database covers China's firms only, which is an advantage when making statistic inference to entire China's companies. The KLD index is the representative evaluation data of CSR information disclosure quality measurement in foreign academy. In China, Chinese academy of social sciences and RKS are 2 main CSR information quality measurement databases. Compared with the data from the Chinese academy of sciences, the evaluation system of Runling database involves a larger sample size, and the evaluation of corporate social responsibility information disclosure quality is more thorough and detailed. Moreover, the score evaluated by an independent rating agency ensures the objectivity of the data to some extent. As I mentioned in the literature review, part of A share companies listed on Shanghai and Shenzhen stock exchange began to disclose CSR information in accordance with regulations in 2008 at the request of the government. However, RKS database covers information not only from public companies that are mandatorily disclose CSR reports, but also from public companies that are voluntarily disclose CSR reports in China from 2008 to 2019.

RKS constructs its database on the basis of its self-developed MCT-CSR report evaluation system. (see Appendix 1) The MCT-CSR evaluation system starts from the three zero-level indicators of Macrocosm, Content and Technique, and sets up first level indicators and secondary indicators respectively to comprehensively evaluate CSR reports issued by reporting enterprises. The 16 first-level indicators mainly include strategic effectiveness, responsibility management and compilation of specifications. There are 26 secondary indicators, mainly including the disclosure of the company's annual income, profit, profit distribution and other information, the charting of the reported data and information, and the degree of diagonalization

and etc. The scoring of the MCT-CSR system adopts the structured expert scoring method with a full score of 100, in which the Macrocosm evaluation weight of M value is 30% and the full score is 30; Content evaluation C value weight is 50%, full score is 50; the technical evaluation T value has a weight of 30% and a full score of 20.

Since the beginning of the 21st century, international organizations tried to develop standards for CSR. The first major international standard of CSR was published by CEPAA named Social Responsibility 8000, which ensure the level of CSR and then became the basis assurance for CSR disclosure for many companies. Latter Sustainable Development Report Guide published by GRI has become the most widely used compilation basis for corporate social responsibility information disclosure, providing a comprehensive and operable reference framework (see table 4) for CSR disclosure. This framework mainly consists of 3 main aspects that are economic, environment, and social. Although GRI disclosure framework has been adopted by many companies for CSR information disclosure, CSR information disclosure framework has not unified. To date, management has had broad discretion and flexibility in defining corporate social responsibility strategies. Therefore, each enterprise can determine the quality of its CSR report and selectively modify the value of its information according to its information policy.

Today, most third-party CSR rating agencies also base their scoring system on the GRI framework and convert it into quantitative indicators. Through content analysis and other methods, the CSR report is quantified to make the CSR level of the company more intuitive and comparable.

Table 4: GRI Sustainability Reporting Guidelines Categories

<i>Economic</i>	Direct economic impacts	Customers Suppliers Employees Providers of capital Public sector
<i>Environmental</i>	Environmental	Materials Energy Water Biodiversity Emissions, effluents and waste Suppliers Products and services Compliance Transport Overall
<i>Social</i>	Labour practices and decent work	Employment Labour/management relations Health and safety Training and education Diversity and opportunity
	Human rights	Strategy and management Non-discrimination Freedom of association and collective bargaining Child labour Forced and compulsory labour Disciplinary practices Security practices Indigenous rights
	Society	Community Bribery and corruption Political contributions Competition and pricing
	Product responsibility	Customer health and safety Products and services Advertising Respect for privacy

Source: GRI (2002: 36).

In the process of MCT-CSR system development, it has absorbed GRI reporting framework, Sustain Ability report evaluation framework, Dow Jones sustainable development index (DJSI) evaluation system and other international mainstream social responsibility reporting standards, which made the system has good compatibility. Thus, the prominent advantages of the MCT-CSR system are the index quantization degree is high, the mining points are mostly quantitative data, from the research and development in 2007 till now it has a good maturity.

2.2.2 Internal Control Data

The internal control data is obtained from DIB database, which belong to Shenzhen Dibo enterprise risk management technology corporation. It is the first independent third-party enterprise to publish the internal control index of China's listed companies. To some extent, it also guarantees the objectivity of the data. In recent years, due to the sufficient content of the internal control index and the reasonable evaluation system, the internal control index of China's listed companies released by the company has been widely used in the evaluation of the internal control of listed companies by the academic and in practical. DIB database is a self-developed index system of internal control information disclosure, which constructed on the basis of the *Basic Norms of Internal Control* and COSO's integrated internal control framework combined with the actual situation of index supply and demand in China. (see Appendix 2) Gordon et al. (2009) believed that effective internal control stems from the realization of internal control objectives, so DIB also applied the objective-oriented internal control index evaluation system.

The DIB Internal Control System index consists of five sub-indexes, they are strategy hierarchy Index, operation hierarchy index, financial report reliability, compliance, and asset safety. The strategic Hierarchy Index measures three secondary indicators through business plan, competitive advantage and system risk. The business plan is divided into completely unrealized situation, partially unrealized situation and realized situation through the annual report of the board of directors and the disclosure of the progress of the company's development strategy and business plan, which are assigned as -2, -1 and 0 respectively. Competitive

advantage is measured by standardized calculation of planned market share, and system risk is realized by correlation calculation of beta coefficient. The operation Hierarchy Index measures through asset turnover, per capita business input, and return on equity these 3 secondary sub-indexes. The reliability of financial report is measured quantitatively by auditing opinions, financial report restatement and earnings quality. The audit opinion of the financial statements is rated from -2 to 0 according to the audit opinion issued by a registered accounting firm. Financial statement restatement measures by the condition if there is no statement restatement assignment 0, text financial statement restatement assignment -1, involving financial statement restatement assignment -2. The compliance objective of a company is measured by whether there are violations of laws and regulations, whether there are cases being filed for investigation, and the execution of a company in litigation. The company's asset safety is measured by asset impairment, investment loss and adjusted non-operating expenses. (Lin et al., 2014)

The DIB database on the five elements of internal control and adjust it by China's information disclosure supervision system and its own practical experience in the field of internal control and risk management more than ten years. After constructing the first and second level indexes, AHP method is used to construct the multi-level evaluation system of internal control, and fuzzy comprehensive judgment method is used for fuzzy evaluation. The database gives full consideration to the new development of the COSO internal control system. DIB use content analysis method gather data from the annual report regularly disclosed by the listed company, internal control evaluation report, internal control audit report, and audit committee work report. The information disclosure status consists the data of the listed company since 2007 is measured.

2.3 Variables Description

2.3.1 Independent Variables

In this study, we used the score of the independent CSR report published in 2018 which calculated by RKS CSR rating agency as the independent variable.

2.3.2 Dependent Variables

This paper analyzes internal control from the perspective of internal control objectives. Based on this, I chose five goals of internal control to test the realization effect of their goals. The sub-index of internal control of DIB quantifies the index of completion of internal control objectives and calculates them. Therefore, this paper sets five end variables: Strategic hierarchy index, Business hierarchy index, Reported reliability index, Legal compliance index, Asset safety index. Therefore, this paper selects the substitute variable of internal control as "internal control index" in 2018 and divides it by 1000 to calculate the processed value.

2.3.3 Control Variables

When analyzing the relationship between internal control and CSR performance, we should consider the influencing factors of both. The development mode and basic basis of enterprises are different, the degree of corporate social responsibility is different. We should control the main components of these factors and set the following control variables based on the previous research results:

(1) asset size

Generally speaking, the size of assets is the size of the enterprise. The total assets of the enterprise can tell the size of the enterprise's development to some extent. At the same time, the size of assets can also reflect the enterprise's ability to create value and the ability to fulfill corporate social responsibility. The larger the asset scale, the stronger the enterprise's ability to fulfill its social responsibility. This paper selects the asset size as the control variable of corporate social responsibility performance, which is also a conclusion confirmed by referring to domestic and foreign literatures. At present, domestic and foreign scholars usually choose the natural logarithm of the company's total assets at the end of the period to measure.

(2) Asset-liability Ratio

Asset-liability ratio refers to how much of an enterprise's total assets are formed by debt, is a measure of corporate financial statement indicators. For general enterprises, the asset-liability

ratio of around 50% or below is a relatively healthy state. If it is above 50%, it indicates a higher risk and a lower solvency. This index is generally used to measure the enterprise's solvency and operational risk.

(3) Total shareholding ratio of the top 5 major shareholders

Equity concentration is the sum of the equity held by the largest shareholders with the highest shareholding ratio, which reflects the concentration of the company's shares among the largest shareholders. In the literature review, we already figured out that corporate governance has close relationship with the fulfillment of CSR. Centralized ownership concentration is an effective means to restrict the agency risk and moral hazard of management. For their own interests, major shareholders will strengthen the supervision of their own operators and actively participate in corporate governance. Thus, we choose the total shareholding ratio of the top 5 major shareholders as one control variable. The Summarized table of variables show as below: (see Table 5)

Table 5: Summary Table of Variables

Variable Types	Name of Variable	Variable	Source
Independent Variable	RKS CSR Score	CSR	RKS CSR Rating Agency
Dependent Variable	Strategic Hierarchy Index	SHI	DIB Internal Control Rating Agency
	Business Hierarchy Index	BHI	DIB Internal Control Rating Agency
	Reporting Reliability Index	RRI	DIB Internal Control Rating Agency
	Legal Compliance Index	LCI	DIB Internal Control Rating Agency
	Asset Safety Index	ASI	DIB Internal Control Rating Agency
Control Variables	Asset Size	Asset	China Securities Regulatory Commission

	Asset-liability Ratio	ALR	China Securities Regulatory Commission
	Total shareholding ratio of the top 5 major shareholders	MSR	China Securities Regulatory Commission

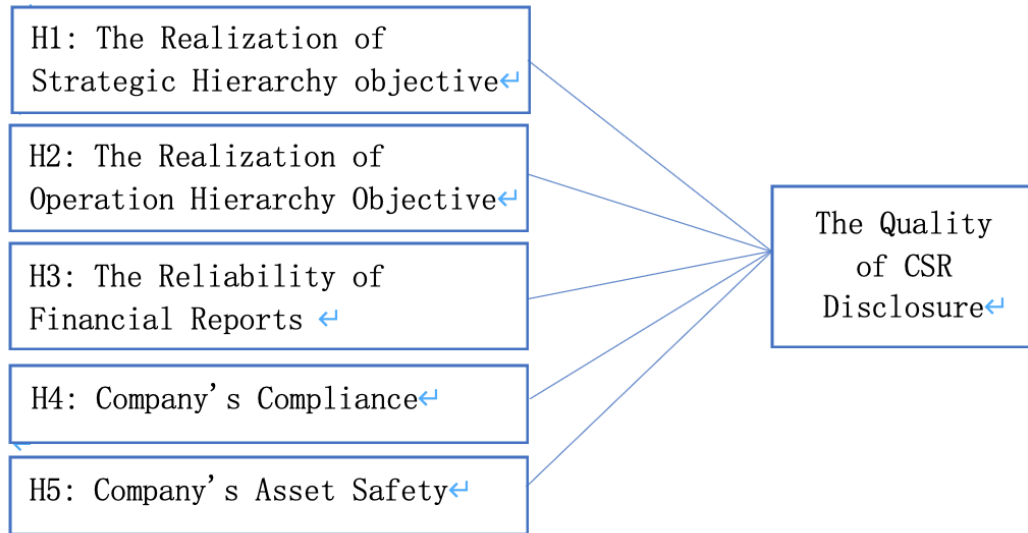
2.4 Data Analysis Tool

This paper adopts the method of regression analysis to study the correlation between social responsibility report quality and internal control of listed companies. SPSS offers professional statistical products and services solutions, providing statistical analysis operations, data mining, predictive analysis and decision support services. At the same time, it also has the advantages of automatic drawing, in-depth data analysis and simple operation. It is the mainstream statistical analysis software applied in natural science, social science and technical science.

2.5 Theoretical Framework

Based on the five objective of internal control that put up by Chinese government for Chinese companies, combine with the analysis of literature review related to the internal control and corporate social responsibility, I generated 5 hypotheses. Thus, the theoretical framework is shown as below: (see Figure 4)

Figure 4: Theoretical Framework



2.6 Regression Model

In order to test the hypothesis and answer the research question, correlation and regression will be conducted. Multiple linear regression is suitable for dealing with multiple variables, and it is widely used in the study of corporate social responsibility and corporate internal control.

The regression model would be the below:

$$CSR_i = \alpha + \beta SHI_i + \beta BHI_i + \beta PRI_i + \beta LCI_i + \beta ASI_i + \beta ASSET_i + \beta ALR_i + \beta MSR_i + \varepsilon_i$$

Where,

CSR_i = 2018, DIB Strategic Hierarchy Index

α = intercept, the estimated value of company's CSR

BHI_i = 2018, DIB Business Hierarchy Index

PRI_i = 2018, DIB Reporting Reliability Index

LCI_i = 2018, DIB Legal Compliance Index

ASI_i = 2018, DIB Asset Safety Index

$ASSET_i$ = ln of total assets of the company at the end of 2018

ALR_i = Liability/Asset of company i

MSR_i = total shareholding ratio of the top 5 major shareholders

ε_i = residual, part of the observed CSR_i that is not explained by the model

Chapter 3. Empirical Study

3.1 Introduction

In this part the result of descriptive statistics, correlation and regression will be shown. Paragraph 3.2 will illustrate the preparation before data processing and present the descriptive statistics. Paragraph 3.3 will elaborate the result of Pearson correlation. Paragraph 3.4 will present the result of regression. All the above data processing processes will be completed by SPSS.

3.2 Descriptive Statistics

Before to conduct the descriptive statistics, we checked the normality of dependent variable CSR. The histogram shows a positive skewed distribution and outliers of CSR. (see Chart 1) We can see more clearly from the box plot that the extreme value appears around 80. (see Chart 2) In order to determine whether the dependent variable is normally distributed, Kolmogorov-Smirnov and Shapiro-Wilk tests were used to test the distribution normality in SPSS. These tests examine whether the population distribution deviates from the normal distribution and compare the data with a normal distribution with the same mean and standard deviation. (Field, 2009) Table 6 shows the result of Kolmogorov-Smirnov and Shapiro-Wilk are significant at level of 1%, which means the dependent variable CSR is not normal distributed. (see Table 6)

Chart 1: Histogram of CSR

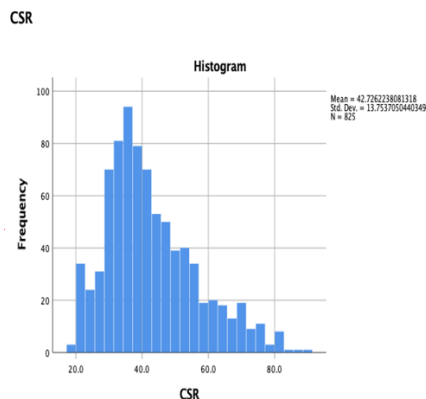


Chart 2: Box Plot of CSR

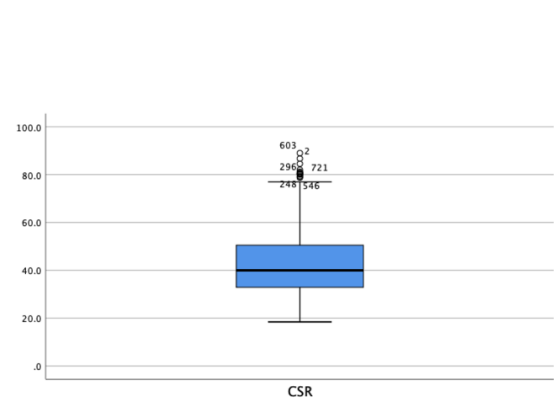


Table 6: Test of normal distribution CSR and Descriptive

Descriptives			
		Statistic	Std. Error
CSR	Mean	42.7262238	.478842547
	95% Confidence Interval for Mean	Lower Bound	41.7863291
		Upper Bound	43.6661185
	5% Trimmed Mean	42.0605738	
	Median	39.9524201	
	Variance	189.164	
	Std. Deviation	13.7537050	
	Minimum	18.4416118	
	Maximum	89.0033188	
	Range	70.5617070	
	Interquartile Range	17.6765325	
	Skewness	.778	.085
	Kurtosis	.216	.170

Tests of Normality						
Kolmogorov-Smirnov ^a				Shapiro-Wilk		
Statistic	df	Sig.		Statistic	df	Sig.
CSR	.089	825	.000	.953	825	.000

a. Lilliefors Significance Correction

Field (2009) defined the outlier as the observed value that is significantly different from most other observed values. These outliers lead to the creation of models and affect the estimated values of the regression coefficients. Because outliers will cause data to deviate from the normal distribution and affect the accuracy of the model and the representativeness of samples, this is why outliers are important and researchers care about them. In order to deal with these outliers, there are 3 data processing techniques usually used, which are trimming data, logarithmic transformation, and winsorizing. However, because the data used in our study has no biased or errors in measurement, the method of trimming data is not adopted. If the data after logarithmic transformation is used for regression analysis, the economic meaning of the coefficients in the regression model will change, so the logarithmic transformation method is not used. Winsorizing is to replace a given part of a probability distribution or the high and low end of a sample with the most extreme residual value. (Dobson, 2004) By means of winsorizing, we can reduce the influence of outliers on statistical tests without reducing the sample size and this method is often used in enterprise financial data processing. Thus, we adopted winsorizing to deal with outliers and winsorized CSR data can be seen approximately normal distribution. From the chart 3 we can tell that after winsorizing data, the outliers have been reduced. In this research the winsorized CSR data will be used in this research. (see Chart 3)

Chart 3: Box Plot of winsorized CSR

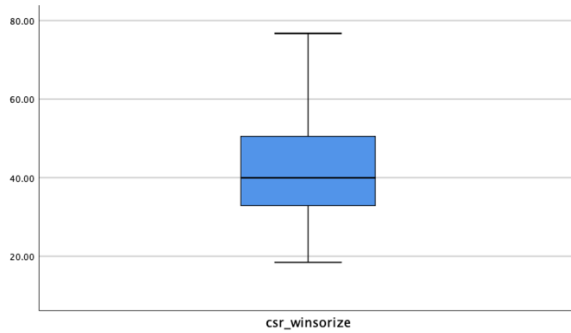


Table 7 shows the descriptive statistics of dependent, independent and control variables in this research, which could provide a general overview of the CSR, internal control and basic financial indicators of 825 listed companies selected in this research. The company with highest of CSR disclosure score is 76.7 and the lowest observed company's CSR disclosure score is 18.4, the range of them is 58.3, which reflect the quality of CSR disclosure of observed company has large different. The fulfillment of CSR of different have large different. The mean value of CSR is 42.6, which explains that the majority company has the CSR disclosure score of 42.6. However, since the full grade is 100, the companies have relatively low level in fulfillment of CSR.

In general, the scope of the five sub-indicators of internal control are more than 700, indicating that the level of internal control of listed companies is very different. Among the five sub-indicators, the average of the strategic level index, the operational level index and the asset safety index is around 500, which reflects that most companies have relatively poor performance in the internal control of these three aspects. Moreover, we could tell that the operation hierarchy index has the largest range of 959.1, which shows the performance of observed companies have large difference in operating. The compliance hierarchy index has the highest mean within 5 internal indicators of 948.8, which illustrate that the observed companies has high performance in legitimacy.

From the perspective of the three control variables, the proportion of the top five shareholders in the company is 97.4% at the maximum, 7.3% at the minimum, and the difference range is 90.1%. This indicates that the difference in ownership concentration degree of the observed sample companies is large, and the participation degree of shareholders in corporate governance varies greatly. The average is 55.1%, indicating that the top five shareholders of most companies have absolute control of the company. The difference range of asset size is 12.5,

and the mean value is 23.7, which reflects that there are certain differences in the size of selected sample companies. From the perspective of asset-liability ratio, the maximum asset-liability ratio of the observed companies is 1.7, indicating that some companies have been insolvent, with high risk. The lowest asset-liability ratio is 0.04, and the average is about 0.5. (see Table 7)

Table 7: Descriptive Statistics

Descriptive Statistics						
	N	Range	Minimum	Maximum	Mean	Std. Deviation
CSR_winsorization	825	58.3	18.4	76.7	42.6	13.5
Strategic Hierarchy Index	825	919.5	80.5	1000.0	535.8	216.3
Operation Hierarchy Index	825	959.1	40.9	1000.0	528.7	170.1
Reliability of financial report	825	767.9	232.1	1000.0	841.2	115.8
Compliance Hierarchy Index	825	700.0	300.0	1000.0	943.8	129.5
Asset Safety Hierarchy Index	825	847.2	13.3	860.5	506.3	95.9
Total shareholding ratio of the top 5 major shareholders (%)	825	90.1	7.3	97.4	55.1	16.7
Asset Size (ln)	825	12.5	18.5	31.0	23.7	1.8
Asset-liability ratio	825	1.7	.04	1.8	.5	.2
Valid N (listwise)	825					

3.3 Correlation Result

In order to see how the realization of internal control will affect the quality of CSR, we conducted correlation. Table 8 presents the results of the correlation between variables. The Pearson correlation of CSR is shown in the table, including the independent and control variables in the regression model. The correlation values in the table are significant at the 1% and 5% levels.

The Pearson correlation between CSR and Strategic hierarchy index, operation hierarchy index, total shareholding ratio of top 5 shareholders, asset size and asset-liability ratio are 0.27, 0.424, 0.295, 0.544 and 0.249 respectively and have significant correlation at 1% level while the asset safety hierarchy index is negatively correlated with CSR and is significant at the 1% level. Meanwhile, the Pearson correlation between CSR with reliability of finance report index and compliance hierarchy index are 0.59 and 0.60 respectively. This positive correlation shows

that the improvement of the four indicators of internal control will improve the quality of CSR reporting. From the correlation coefficient, it can be seen that the corporate operation level index has the most influence in CSR information disclosure. The positive correlation of total shareholding ratio of the 5 top major shareholders with CSR shows that the higher the concentration of shareholder equity, the higher the quality of CSR reporting. The size of the company's assets reflects the size of the company. The larger the size of the company, the better the CSR disclosure performance. A certain increase in the company's asset-liability ratio will also have a positive impact on the company's CSR performance.

The total shareholding proportion of the top 5 shareholders is significantly positively correlated with the strategy hierarchy index, operation hierarchy index, reliability of financial report, and corporate compliance hierarchy index, but negatively correlated with the asset safety hierarchy index. The company's asset size is positively correlated with the level of strategy hierarchy index, operation and compliance hierarchy index and is significantly correlated with the first two indexes, while asset size has negative correlation with the reliability of financial report and asset safety index. The company's asset-liability ratio is significantly positively correlated with the corporate strategic hierarchy index and operation hierarchy index, while negatively correlated with the reliability of financial report, corporate compliance and asset safety hierarchy index. (see Table 8)

Table 8: Pearson Correlation CSR

Correlations										
		CSR_winsorization	Strategic Hierarchy Index	Operation Hierarchy Index	Reliability of financial report	Compliance Hierarchy Index	Asset Safety Hierarchy Index	Total shareholding ratio of the top 5 major shareholders (%)	Asset Size (ln)	Asset-liability ratio
CSR_winsorization		1	.270**	.424**	.059	.060	-.175**	.295**	.544**	.249**
	Sig. (2-tailed)		.000	.000	.091	.083	.000	.000	.000	.000
Strategic Hierarchy Index		.270**	1	.403**	.039	.083*	-.072*	.189**	.397**	.124**
	Sig. (2-tailed)	.000		.000	.261	.017	.039	.000	.000	.000
Operation Hierarchy Index		.424**	.403**	1	.079*	.128**	-.284**	.315**	.589**	.256**
	Sig. (2-tailed)	.000	.000		.024	.000	.000	.000	.000	.000
Reliability of financial report		.059	.039	.079*	1	.118**	.056	.099**	-.004	-.021
	Sig. (2-tailed)	.091	.261	.024		.001	.106	.005	.919	.542
Compliance Hierarchy Index		.060	.083*	.128**	.118**	1	.101**	.086*	.034	-.007
	Sig. (2-tailed)	.083	.017	.000	.001		.004	.013	.322	.852
Asset Safety Hierarchy Index		-.175**	-.072*	-.284**	.056	.101**	1	-.137**	-.209**	-.145**
	Sig. (2-tailed)	.000	.039	.000	.106	.004		.000	.000	.000
Total shareholding ratio of the top 5 major shareholders (%)		.295**	.189**	.315**	.099**	.086*	-.137**	1	.318**	.086*
	Sig. (2-tailed)	.000	.000	.000	.005	.013	.000		.000	.014
Asset Size (ln)		.544**	.397**	.589**	-.004	.034	-.209**	.318**	1	.624**
	Sig. (2-tailed)	.000	.000	.000	.919	.322	.000	.000		.000
Asset-liability ratio		.249**	.124**	.256**	-.021	-.007	-.145**	.086*	.624**	1
	Sig. (2-tailed)	.000	.000	.000	.542	.852	.000	.014	.000	

** . Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

3.4. Regression Result

In order to further explore the relationship of internal control and the CSR disclosure and test hypothesis, we will conduct the regression of multivariate equations. We mentioned the regression model in last chapter, and this formula contains five internal control sub-indicators as independent variables, and three control variables.

Based on the table 9, we can tell, the value of R (0,578) shows the multiple correlation between the predictor and the outcome. The value of adjusted R square is more precisely shows that 32.8% of the CSR is explained by the independent variables. (see Table 9)

Table 9: Model Summary of Regression

Model Summary ^b									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	Change Statistics			
						F Change	df1	df2	Sig. F Change
1	.578 ^a	.334	.328	11.08689	.334	51.254	8	816	.000

a. Predictors: (Constant), Total shareholding ratio of the top 5 major shareholders (%), Asset-liability ratio, Compliance Hierarchy Index, Reliability of financial report, Asset Safety Hierarchy Index, Strategic Hierarchy Index, Operation Hierarchy Index, Asset Size (ln)

b. Dependent Variable: CSR_winsorization

According to the table 10, the value F of the model is 51.3, which means that the model is significant because ($P < 0,05$). (see Table 10)

Table 10: ANOVA

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	50401.2	8.0	6300.2	51.3	.000 ^b
	Residual	100302.0	816.0	122.9		
	Total	150703.2	824.0			

a. Dependent Variable: CSR_winsorization

b. Predictors: (Constant), Total shareholding ratio of the top 5 major shareholders (%), Asset-liability ratio, Compliance Hierarchy Index, Reliability of financial report, Asset Safety Hierarchy Index, Strategic Hierarchy Index, Operation Hierarchy Index, Asset Size (ln)

Table 11: Coefficients of the model

Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	-56.673	8.136		-6.966	.000		
	Strategic Hierarchy Index	.001	.002	.019	.579	.563	.780	1.282
	Operation Hierarchy Index	.008	.003	.097	2.541	.011	.555	1.803
	Reliability of financial report	.005	.003	.041	1.402	.161	.967	1.034
	Compliance Hierarchy Index	.002	.003	.020	.678	.498	.948	1.055
	Asset Safety Hierarchy Index	-.007	.004	-.047	-1.540	.124	.885	1.129
	Asset Size (ln)	3.844	.358	.504	10.725	.000	.369	2.713
	Asset-liability ratio	-6.710	2.379	-.107	-2.821	.005	.570	1.755
	Total shareholding ratio of the top 5 major shareholders (%)	.078	.025	.097	3.121	.002	.847	1.181

a. Dependent Variable: CSR_winsorization

The results of regression model can be seen:

(1) The variance inflation factor VIF did not exceed 10, indicating that there is no obvious collinearity between the variables in the model, indicating the effectiveness of the model.

(2) The coefficient between the strategic hierarchy index and CSR is 0.019, indicating that the realization of the strategic level goal of internal control is positively correlated with CSR. In other words, the better the realization of the strategic level goal, the higher the quality of CSR information disclosure will be. The P value is 0.536, greater than 0.05, indicating that it is not significant at the 5% level, that is, the realization of internal control objectives at the strategic level has no significant correlation with the quality of CSR information disclosure. This does not confirm H1.

(3) The coefficient between the operational hierarchy index and CSR is 0.097, which is significant at the 5% level, indicating that the realization of the business level goal of internal control is positively correlated with CSR. In other words, the better the enterprise's efficient operation is, the higher the quality of CSR information disclosure will be. This proves that the H2 hypothesis has confirmed.

(4) The coefficient of corporate financial report credibility is 0.041, but the result is not significant at the 5% level, that is, the credibility of financial report is not significantly correlated with the quality of CSR information disclosure, which does not confirm H3.

(5) The coefficient of the enterprise compliance level index is 0.02, but the result is not significant at the 5% level, that is, the realization of the enterprise compliance level internal

control goal is not significantly correlated with the quality of CSR information disclosure, which does not confirm H4.

(6) The coefficient between the asset safety hierarchy index and CSR is -0.047, indicating that the realization of the asset safety of internal control is negatively correlated with CSR. However, the p value is 0.124, greater than 0.05, indicating that it is not significant at the 5% level. The realization of internal control objectives at the asset safety level has no significant correlation with the quality of CSR information disclosure. This does not confirm H5.

(7) The coefficient of asset size is 0.504, which is significant at the 5% level, indicating that the larger the company is, the more inclined it is to issue CSR reports of higher quality.

(8) The coefficient of negative equity ratio is -0.107, which is significant at the 5% level, indicating that the reduction of the asset-liability ratio is conducive to the CSR performance of the company.

(9) The coefficient of the proportion of the company's top five shareholders is 0.097, which is significant at the level of 5%, indicating that the more concentrated equity is, the more favorable it is for the company to release high-quality CSR reports.

The summarized hypotheses testing result is show as below: (see Table 12)

Table 12: Hypotheses Testing Result

Hypothesis↵	Accepted/ Rejected↵
H1: There is a positive relationship between the quality of CSR disclosure and the realization of corporate strategic objectives.↵	Rejected↵
H2: There is a positive relationship between the quality of CSR disclosure and the realization of corporate operation objective.↵	Accepted↵
H3: There is a positive relation between the quality of CSR reporting and the realization of financial reporting reliability objective.↵	Rejected↵
H4: There is a positive relationship of company's compliance and the quality of CSR disclosure.↵	Rejected↵
H5: There is a positive relation with the quality of company's CSR disclosure and asset safety.↵	Rejected↵

3.5 Summary

In this chapter, we conducted the processing of data and present the result by using SPSS. Firstly, we used box plot to exam the normality of independent variable CSR and to detect the outliers of sample, then winsorized data. Secondly, we present the results of descriptive statistics with illustration and comparison of the total observation, the range, mean, and standard deviation. Before conducted the regression, we used the Pearson correlation to explore the correlation within variables. Finally, based on the multiple regression model that put forward in the last chapter, we conducted the regression and illustrate the results and tested hypothesis.

Chapter 4. Discussion

I started analysis of the relationship of effective internal control with CSR disclosure with a formulation of hypotheses in accordance with the COSO's integrated internal control framework with the support of stakeholder theory, agency theory and legitimacy theory. After analyzing the statistical results, the explanation of the results of testing hypotheses will be elaborated in this chapter.

The result of hypothesis 1 doesn't confirm that there is a significant positive relationship between the realization of corporate strategic objectives and the quality of CSR disclosure. One possible explanation is that most of the Chinese listed companies observed in this research have not integrated the fulfillment of CSR into its long-term development strategy and not really improve the quality of CSR disclosure as a specific means of implementing strategic management and risk management. In the "guidelines on supporting corporate internal control" issued by China, it is pointed out that the strategic level goal is the highest goal of corporate internal control in China, which is closely related to risk management. From the perspective of the development of corporate social responsibility, the fulfillment of corporate social responsibility is the driving force to promote sustainable development, which is consistent with the most important sustainable development goals in corporate strategic goals. From the perspective of stakeholder theory, fulfilling CSR and improving the quality of CSR information release are conducive to adjusting stakeholders' interest conflicts and reducing external strategic environmental risks. As society and stakeholders pay more attention to CSR, Chinese enterprises should incorporate specific, high-quality and positive CSR into their long-term development strategy. Meanwhile, improving the quality of CSR disclosure as a specific means of risk management will further embody the connotation of the realization of corporate strategic goals.

The acceptance of hypothesis 2 confirmed that there is a significant positive relationship between the realization of operating hierarchy goal and the quality of CSR. As mentioned before, the operating hierarchy goal evaluate whether the enterprise is operating effectively. This shows that the improvement of enterprise's operating efficiency and financial performance

will promote enterprises to further fulfill their CSR and improve the quality of CSR disclosure. This is mainly because the improvement of effective operation and financial performance lays an economic foundation for enterprises to fulfill their CSR, which is beneficial to enterprises to protect the interests of stakeholders and improve their satisfaction with the development expectations of enterprises. Several literatures have also confirmed the positive relationship between CSR performance and financial performance of the corporate. (Servaes, 2013) (Chen et al., 2016) (Lins et al., 2017) This result is also related to the transformation of China's economy. China's economy has expanded domestic demand internally and deepened opening-up and international cooperation externally. In this process, influenced by the international community's attention to CSR, Chinese enterprises improve the quality of CSR disclosure while pursuing economic benefits and strive for more Chinese and foreign investors so as to promote the further development of enterprises.

The test of hypothesis 3 doesn't confirmed the significant positive relationship of the realization of financial reporting reliability and the quality of CSR disclosure. The possible explanation is that enterprises do not attach as much importance to the quality of CSR reporting as to the reliability of financial reporting. We find that this ignorance of the importance of CSR reporting comes not only from the enterprise, but also from the evaluation system of internal control. In the COSO's integrated framework of internal control, the objective of reporting indicates that both financial and non-financial reporting are required to be reliable, timely, transparent, and otherwise consistent with regulatory, recognized standards-setters, or entity policy requirements. However, we can see that non-financial reports are not included in the evaluation index system through the establishment of internal control sharing index system. Although they are both important channels for information exchange and communication between internal and external stakeholders. For the listed companies China, some of them have mixed the content of CSR report into the financial report without elaborating the performance of CSR. Although the CSRC requires some enterprises to issue independent CSR reports compulsory and encourages all companies to release independent CSR reports, only about 24% of A-share listed companies have released independent CSR reports by 2018. This still reflects the lack of awareness of the importance of corporate social responsibility and ignores the importance of non-financial reporting other than financial reporting. From the perspective of

agency theory, observed companies in the research are lack of awareness of both financial report and non-financial report can effectively adjust information asymmetry between enterprises and stakeholders.

The test of hypothesis 4 couldn't confirm the significant positive relationship of the realization of compliance hierarchy objective and the quality of CSR disclosure. I consider the possible reason for such an outcome could be the acquisition of legitimacy supposed to be the starting point of CSR behavior, while in reality CSR behavior is often the result of the impact of institutional environment. The institutional logic is that the institutional environment constructed by regulatory legitimacy, normative legitimacy and cognitive legitimacy, which generate regulatory pressure, normative pressure and cognitive pressure on enterprises. These pressures should be regulated, and imitative mechanisms to prompt enterprises to make corresponding behavioral responses. However, most of the Chinese enterprises choose those behaviors of social responsibility out of the passive feeling of institutional pressure and institutional rationality. In this case, compliance does not show a tendency to take the initiative to assume social responsibility, so no significant positive correlation has been observed in practical research. In fact, more than 90% of the companies selected in this study scored full marks in the corporate compliance hierarchy index but couldn't observe a positive impact on the release of high-quality CSR report which partial reveled the above view.

The result of hypothesis 5 doesn't confirm that there is a significant positive relationship between the realization of corporate strategic objectives and the quality of CSR disclosure. However, it is worth noting that in the correlation analysis, there is a significant negative correlation between the quality of CSR information disclosure and the safety of corporate assets. The possible explanation is that when the enterprise's assets are in a safe state, the enterprise may choose to invest more capital in the behavior of expanding production or the rate of return is higher than the rate of return of CSR. On the contrary, when the security of corporate assets is threatened, enterprises may strengthen the relationship with stakeholders by disclosing CSR information. In particular, recent studies have shown that some enterprises regard strategic CSR as an effective tool for brand management. (Céline, 2017) Safeguarding assets against loss in COSO's internal control framework was originally integrated into the enterprise's operational level goal, but in China's internal control framework, the asset safety is a separate goal. This is

closely related to the change of China's economic system and asset security has special significance for Chinese enterprises. However, the fact that asset safety does not play a positive regulating role in CSR report quality improvement can reflect that Chinese enterprises do not take improving CSR report quality as an effective tool to enhance intangible assets safety such as brand awareness and reduce asset safety risks for the purpose of enhancing asset safety.

At the same time, I observed in the research that in China, the government has always been the main advocate and promoter of CSR and implementing internal control, while enterprises are more like partners of government policies. According to data released by RKS, more than half of enterprises listed on A-share issued CSR reports as required by regulation between 2009 and 2018. This reflects that response to regulation is the main motivation for most listed companies in China. CSR disclosure in the social responsibility report of a-share listed companies increased by only 1.29 times in the 10 years from 2009 when the government issued regulations on some listed companies and advocated voluntary release of all companies, which was lower than the growth rate of market size. This reflects that despite the vigorous promotion of the government, the construction and development of CSR reporting system still lag behind the development process of the whole economy. Moreover, the report quality is increasing year by year, the average score in 2018 is only 42.5 (out of 100). In 2018, 851 companies that released CSR reports received the highest rating for their CSR reports of 22 listed companies, accounting for less than 3 percent. (RKS, 2019) The low CSR reporting level also reflects that the CSR performance level of enterprises has not been significantly improved. Although the concept of corporate social responsibility has been introduced into China for more than 30 years, most enterprises have not deeply understood the significance of CSR to corporate development from the perspectives of internal management, stakeholders and sustainable development of enterprises, so as to complete the transformation from passive performance to active commitment.

In terms of the overall results, this study measures the effectiveness of internal control with five specific sub-objectives of internal control. Only the realization of operation hierarchy objective shows a significant positive regulating effect on the quality of CSR disclosure, while the realization of the other four internal control objectives have no significant correlation effect on the quality of CSR disclosure. This shows that the effectiveness of corporate internal control

does not have a close impact on the performance of CSR. This may reflect from the side that the observed motivation of Chinese listed companies to undertake CSR is not from the need of internally but from the passive response under the pressure of the institutional system. Although the CSR is mentioned in the goals of various levels of corporate internal control, the actual CSR performance is not satisfactory.

Chapter 5. Conclusion

5.1 Summary

The purpose of this research is to reveal the relationship between the effectiveness of internal control and corporate social responsibility. Especially in China, the economic system has change from planned economy to market economy in the 1980s, which led to the gradual opening of the market and the concept of CSR as well as COSO's internal control management system gradually entry into China. In the theoretical background, we sorted out the theoretical development background of CSR and the integration framework of COSO's internal control.

Based on the CSR related theories, in order to answer the research question of whether the effectiveness internal control will lead to the high performance of CSR, 5 hypotheses were formulated on the basis of five specific sub-objectives of internal control. We selected 825 listed companies that both released CSR disclosure and internal control disclosure in 2018 as samples for this study. CSR data are from RKS, China's official third-party CSR rating agency, the 5 sub-indexes of internal control come from DIB, the official internal control rating agency in China. After conducting correlation and regression analysis, we found that only the operation hierarchy objective of the company had significant positive adjustment effect on CSR disclosure quality ($P < 0.05$) while the overall effectiveness internal control doesn't show significant impact on CSR disclosure. This is contrary to the stakeholder theory, legitimacy theory and the agency theory. We have given possible reasons for each unproven hypothesis and concluded from the whole that the current effectiveness internal control of Chinese companies has no close impact on the improvement of CSR level. The next paragraph will further illustrate the conclusions in detailed.

We could answer the first research question that the realization of effective operation, legal operation and improvement of the reliability and authenticity of the enterprise's report information play a positive role in the implementation of CSR. The stakeholder theory explains that enterprises should fulfill their CSR because they should not only serve the interests of shareholders, but also should pay more attention to and serve the interests of stakeholders. The Legitimacy theory explains that organizations constantly try to influence society's perception

of them and expect society to view them as legitimate because it enhances the stability and understandability of organizational activities. The agency theory explains the problem that enterprises can adjust the information asymmetry with stakeholders by releasing CSR disclosure. These three theories are consistent with 3 objectives, effective operation, legal operation, and reporting of authentic and reliable information, of COSO internal control.

The second research question of whether the effective internal control will lead to high performance of CSR disclosure in the company could be answered by the empirical study. Among the five sub-goals of internal control, only the objective realization of the business level has a significant positive moderating effect on the improvement of CSR disclosure quality. While the realization of strategic hierarchy objective, reliability of financial reporting, compliance hierarchy objective and asset safety didn't show the significant positive relationship with the improvement of CSR quality. These possibly explained by the following reasons: 1) Most of the listed companies in China have not included the release of high-quality corporate social responsibility reports into their long-term development strategic plans. 2) At present, most corporate reports in China focus on financial reports, while the effectiveness of non-financial reports, such as CSR reports, which can effectively communicate with stakeholders, has been neglected. 3) Compliance behavior is a response to the institutional environment rather than the active implementation of CSR that influences people's recognition of the legitimacy of the company. 4) Chinese enterprises do not take improving CSR report quality as an effective tool for the purpose of enhancing asset safety and reduce the risk.

This is mainly due to 1) The government and other relevant departments are still the main promoters of CSR, while most enterprises that supposed to be the promoters of CSR are still in the role of government policy coordinator. 2) observed motivation of Chinese listed companies to undertake CSR is not from the need of internally but from the passive response under the pressure of the institutional system.

5.2 Managerial Implications

Based on the conclusions of the research above, we recommend that when the corporate implementing internal controls as means of company's overall management monitoring,

managers should specifically incorporate CSR performance and CSR reporting activities into the monitoring activities for the specific implementation of each goal. For instance, managers should include the long-term, continuous and regular release of CSR reports into the assessment scope of corporate strategic objective. In daily operation, managers should not only pay attention to the release of financial reports, but also to improve the timeliness and reliability of non-financial reports. Both financial report and non-financial report are important means of information exchange between enterprises and stakeholders. Moreover, because of the close relationship between enterprise internal control and risk management, managers should take the initiative to establish and improve CSR reporting system and take CSR as an effective tool to reduce external environmental risks and asset safety risks.

And we also observed that the government and other relevant departments are still the main promoters of CSR, while most enterprises that supposed to be the promoters of CSR are still in the role of government policy coordinator. And since the related government regulators plays such an important role in promoting CSR performance and disclosure, they should improve the construction of internal control evaluation system and extend the evaluation scope of financial report reliability to CSR disclosure and even more other non-financial reports. This is more conducive to the supervision and improvement of enterprises in the implementation of internal control in accordance with the institutional evaluation standards to improve CSR disclosure, and promote CSR performance. The managers should change the attitude from barely response to the government policy to proactively fulfilling CSR and take CSR as a strategic development tool to realize the sustainable development of enterprises. Only when the motivation to undertake CSR changes from passive response to institutional environmental pressure to real internal needs of enterprises can China's CSR performance and reporting level be further improved.

5.3 Theoretical Implications

This study provides documentary evidence for the relationship between the quality of CSR disclosure and the effectiveness of internal control in Chinese listed companies. This study

verifies that effective enterprise operation is the main factor that driving the improvement of CSR disclosure quality, which is consistent with Chen et al., 2016. However, this study fails to verify that internal control has a positive moderating effect on the improvement of CSR disclosure quality, which is inconsistent with Tang 2016's research results. Introducing the influence of institutional environment on the relationship between the effectiveness of internal control and CSR disclosure may explore the controversy in this regard.

5.4 Limitations and Future Research

The limitations of this paper are as follows: 1) rating agencies' scoring of CSR reports and internal control reports are based on the CSR framework and indicators selected by rating agencies, and different indicator selection and weight will lead to deviation in the scoring. Moreover, the grading process will be influenced by the grader's subjective cognition. 2) In addition to independent CSR reports, enterprises release CSR information through other channels such as media, but our model does not take into account CSR information released through other channels. 3) The decoupling between CSR-performance and CSR-disclosure.

One suggestion for future research is to build a more comprehensive practical framework to measure CSR disclosure. This model should take into account both the content analysis of CSR report and the information disclosed by CSR collected from other channels. This model is conducive to more accurate measurement of corporate CSR information disclosure. In this study, we did not distinguish the industry effect of internal control effectiveness on CSR. Thus, another suggestion is to explore whether the impact of corporate internal control on CSR is related to different industry by different characteristics.

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Appendices

Appendix 1: RKS CSR Disclosure Indexes System

RKS CSR Disclosure Rating Indicators		
	Primary index	Secondary index
Macrocosm Evaluation (Weight:30%)	1. Strategic effectiveness	1.1 The degree of elaboration of social responsibility strategy (strategic direction, strategic management, strategic approach) 1.2 Strategic effectiveness (Evaluation expert comments)
	2. Stakeholder participation	2.1 Internal communication and multi-level participation 2.2 Stakeholder participation mechanism, participation level and effectiveness
	3. Content balance	3.1 Corporate social responsibility content of the responsibilities of all stakeholders 3.2 The level of disclosure of negative information or challenges and obstacles in fulfilling social responsibility
	4. Information comparability	4.1 Consistent with previous reports 4.2 The extent to which social responsibility performance is disclosed by data such as total number and ratio
	5. Overall innovation	5.1 The effectiveness of innovation in corporate and CSR reporting disclosure 5.2 Effectiveness of innovation in corporate and CSR industry reporting
	6. Credibility and transparency	6.1 Disclosure of stakeholder opinions 6.2 Third party inspection degree 6.3 Third party authority 6.4 Report on the effectiveness of the feedback mechanism for readers' comments and Suggestions
	1. Responsibility for strategic	1.1 Company and industry introduction 1.2 Executives statement 1.3 Describe the positive or negative relationship between corporate activities and the economy, environment and society 1.4 Describe the company's values and codes of conduct in promoting sustainable development. 1.5 A situation in which a company sets clear and quantified performance goals for the long, medium and short term
	2. Liability management	2.1 The company establishes the relevant governance body to be responsible for the supervision and sustainable development 2.2 The establishment of relevant social responsibility implementation departments or specialized personnel 2.3 How do companies assess and manage risks, especially those that are closely related to sustainability 2.4 Disclosure of the company's management methods, procedures or procedures for environmental, social and economic affairs 2.5 The company regards sustainable development as the content of communication with investors and investor relations management 2.6 The group company or the parent company promotes its subsidiaries
	3. Economic responsibility performance	3.1 The company's annual income, profit, profit distribution and other information disclosure 3.2 The disclosure of information about the company's year-on-year ratio of revenue, profit and profit distribution 3.3 The company's main products or services market share, sales and other disclosure 3.4 The disclosure of the company's main product or service quality management system 3.5 The qualification rate of the company's main products or services and the disclosure of safety information 3.6 Information disclosure of the company's customer relationship management system (such as customer satisfaction survey) 3.7 The company USES a systematic approach to manage supplier and value chain disclosure for sustainable development
	4. Environmental responsibility performance	4.1 The company has passed the environmental management system certification and annual review 4.2 The company's annual environmental protection investment quota and the disclosure of relevant information 4.3 The company has developed new products, technologies or services to meet future requirements related to sustainable development 4.4 Performance disclosure of the company's work in reducing greenhouse gas emissions 4.5 Information disclosure of the company's work in energy conservation and the development of alternative new energy sources 4.6 The company carries out the information disclosure of green purchasing and green office in the operation process 4.7 Company "waste gas, wastewater, waste residue" emission reduction system, measures and performance disclosure 4.8 The company's social investment activities in environmental protection, including its own environmental friendly improvement and assistance to external organizations 4.9 The company participates in external environmental protection activities or joins international and domestic environmental protection organizations and alliances

Content Evaluation (Weight: 50%)	5. Social responsibility performance	5.1 The interaction between the company and the policies and regulations, and the disclosure of the company's participation in the dialogue on the relevant policies and regulations
		5.2 Information disclosure of the company's tax payment
		5.3 The company's disclosure of the basic composition of its employees
		5.4 A situation in which a company invests in the improvement of its employees' personal knowledge and skills to enhance their ability to develop their careers
		5.5 Disclosure of the company's policies in the areas of employee safety and health
		5.6 The company's information disclosure in the field of employee human rights (equal pay for equal work, elimination of child labor and forced labor, and employment compliance)
		5.7 The company's information disclosure in the fields of employee compensation, welfare and special employee care
		5.8 The company pays attention to the relevant information disclosure of employees' happiness (entertainment activities, family care, satisfaction survey, etc.)
		5.9 The company introduces sustainable development knowledge and carries out sustainable development training
		5.10 Information disclosure of the company's social welfare donations (funds, materials, free professional services) and other social investment
		5.11 Information disclosure of voluntary service activities carried out by employees of the company
	6. The performance of the quality	6.1 Strategic relevance of corporate accountability performance to sustainability issues
		6.2 The company discloses the number and depth of performance indicators related to the essence of sustainable development
		6.3 A situation in which a company expects performance to be measured against specific legal requirements, general norms, or voluntary standards and is subject to internal monitoring
		6.4 Provide evidence of business cases and illustrate how closely they relate to sustainability
		6.5 Disclosure of obstacles, difficulties or doubts the company has encountered in promoting sustainable development
		6.6 Verify the disclosure level of the statement
		6.7 Stakeholders comment on the level of disclosure
Technical Evaluation (weight: 20%)	1. Reporting Policy	1.1 The level of clarity of reporting time boundaries
		1.2 The extent of coverage is clear
		1.3 The clarity of the reporting cycle
		1.4 The degree of clarity of the commitment to the authenticity of the report
		1.5 The degree of clarity of participants and producers
	2. Write specifications	2.1 The degree of clarity between the reference standard and the standard
		2.2 Report fluency and logic
	3. Availability	3.1 The adequacy of the language version of the report
		3.2 The availability of reports and the disclosure of special methods for obtaining reports by persons with special needs
	4. Expression	4.1 Report on the extent to which graphic design, typesetting, etc. improve the disclosure effect
		4.2 The charting and diagramming degree of the report data and information

Appendix 2: DIB Internal Control Rating Indexes System

DIB Index System of Internal Control			
Index Hierarchy	Control Objectives	Indicators	Main Literature Basis
Basic Hierarchy	Compliance	Illegal	Gordon et al. (2009) etc
		Initiate an investigation	Gordon et al. (2009) etc
		The company lawsuit	Gordon et al. (2009); Lin Bin (2013) etc
	Assets safety	Asset impairment	COSO (2013); Dai Bingbin (2007) etc
		Investment losses	COSO (2013) etc
		Adjusted non-operating expenses	COSO (2013) etc
	Reliability of report	Audit opinion on financial statements	Gordon et al. (2009) etc
		The financial statements are restated	Gordon et al. (2009); Cohen et al. (2004) etc
		The quality of the surplus	Jones (1991); DeFond and Jambalvo (1994); Jognson et al. (2002) etc
Management Hierarchy	Business objectives	Total asset turnover	He Chuanqi (1992); Drucker (1988); Singh and Davidson (2003) etc
		Per capita operating income	He Chuanqi (1992); Drucker (1988); Ge Jiazhu and Li Ruxun (1982) etc
		Return on equity	Wu Junming et al(2007); Harold and Heinz (1988); Donaldson Brown (1903) et al.
Strategic Hierarchy	Strategic goals	Business plan	Barney (1991); COSO-ERM (2004) etc
		Competitive advantage	Barney (1991); Miles and Snow (1978); Porter (2008) etc
		Systematic risk	Barney (1991); Miles and Snow (1978); Thompson (1984) etc
Modified Index		Significant and significant defects in internal control	Research group on internal control index of Chinese listed companies (2011) etc